Income Security for an Ageing World

Quietly and without frontpage coverage, humanity is winning ground against its eternal adversary. Death has not been vanquished, but the boundaries of its domain have been pushed back, as advances in medicine and public health allow people to live longer. In 1950, there were 200 million persons aged 60 and over in the world; it is calculated that by the year 2025 the number of elderly will have increased sixfold (twice the rate of the total population), reaching 1.2 billion. The number of people aged 80 and above will multiply by a factor of ten over the same period.

The very good news that attainment of a long life is increasingly available to average people comes with a follow-up story of mixed implications: the world population is getting older. The elderly in 1950 constituted 8 per cent of the global population; in 2025, they will be about 14 per cent of the total. The ageing process is well under way in the developed countries. Longer lives and a falling birth rate—generally associated with improved standards of living—have already brought about an older population. The countries most directly affected by the Second World War experienced a "baby boom" in the immediate aftermath, and when that generation reaches old age early in the next century, the demographic space occupied by the elderly will expand even more rapidly. So will the share of the population expecting pensions and social security.

The demographic express train is scheduled to arrive next in the less developed countries. Fertility declines in most of Asia and Latin America in the 1970s have resulted in populations just starting to "age"—to have an increasing percentage of people 60 years or older. In sub-Saharan Africa, birth rates remain high and most countries are still in the early stages of demographic transition. But by the second decade of the next century the ageing process in Africa will pick up speed.

Older persons in 1950 were evenly divided between developed and less developed countries, and in 1975 distribution was still roughly equal. But it is projected that 62 per cent of the elderly in the year 2000 will be in the developing countries, and that by 2025, 72 per cent of 1.4 billion older persons will live in the poorer countries of the world.

The dependency ratio

Worries that the numbers of people in the workforce are declining in proportion to non-workers generally are expressed in terms of "dependency ratio" indicators. These formulations are based on a division of the population into three age groups: children, prime-age adults and older persons (1-14, 15-64 and 65-and-above age groups). It is then shown that as population ageing proceeds, those in the middle age bracket will have to devote an increasing amount of their income to support those in the older group. Following from this are dire predictions of breakdowns in social security plans, as well as hints of antagonistic interests between the generations.

Dependency ratios, however, are blunt instruments with which to measure economic and social reality. As is pointed out in a report for the United Nations by Brandeis professor Jim Schultz, these formulations assume that everyone between the ages of 15 and 64 is engaged in remunerated labour, and that no one past the age of 64 is working. Neither assumption is true. Such calculations also overlook the informal, unpaid contributions the elderly make

to their families and communities. Moreover, a true determination of dependency ratios should also include the group aged less than 15 years. Once this group is counted as "dependent", the lessening percentage of children in populations to some extent counterbalances the increasing percentage of the elderly.

Schultz also points out that the overall ratio of the elderly to the rest of the adult population is only one factor affecting the stability of national pension and social security plans. Others include the size of pension payments, the age at which retirement and payments commence, labour force participation patterns, changes in wage and unemployment rates, inflation and overall economic growth.

Raw demographic trends, in short, do not by themselves determine the standard of living of the elderly. The ageing of the population is not only a poor excuse to allow income security of the elderly to deteriorate; it offers no excuse at all.

Nevertheless, the world transition from a younger to an older population presents a multitude of challenges that Governments and other institutions are only beginning to address. Income security is among the most important, and there is much that needs to be done for today's elderly as well as tomorrow's.

Social security and pensions in the developed countries

Most welfare states originated in pension provisions for older people, and today older people are the main beneficiaries of social expenditure. In the member countries of the Organisation of Economic Cooperation and Development (OECD), roughly half of social security expenditure goes to people over the retirement age. Ample increases in payments and extension of coverage to new groups of people occurred during the period 1960-1985, but now, according to Charlotte Nusberg, secretary-general of the International Federation on Ageing (IFA), "we've seen a halt in the rapid growth of benefits."

Below are some examples of preparation for the next century, when the number of workers for each retired person is likely to fall from a current five to three or less in the developed countries.

Japan has achieved the highest longevity rate in the world, with an average life expectancy of 82.5 years for women and 76.2 for men. The country also has a rapidly declining birth rate. It is therefore expected that Japan will switch from having the lowest ratio of 65-year-olds to the total population among industrialized nations in 1990 (one in 11) to the highest (one in four) by 2025. Government pensions are modest, and much of the slack will have to be picked up by private means. Fortunately, there is nearly universal coverage of the Japanese labour force through workplace pensions, and 1986 reforms made some progress in protecting women who were full-time housewives or part-time workers previous to retirement. In addition, growing numbers of Japanese firms are raising the retirement age for employees to 60 or over, and one out of every four Japanese over the age of 65 continues to work.

Most national pension plans are of the pay-as-you-go variety— each generation receives its retirement benefits from funds contributed by those who are currently working, not what it contributed in the past. In Singapore, funds are being set aside today to ensure the pension needs of the future. The rates are high, but because of current economic growth and the promise of security there has been general acceptance of the policy. "Part of our salary is forced compulsory savings—15 per cent or so," reports a middle-aged woman who is a government employee. "The Government pays in another 15 per cent. In June of 1992 it will be higher—going up to about 40 per cent—50 per cent. I like this very much, because I don't have to worry about my old age." But women who are not full-time workers in the formal sector cannot be as calm.

In **New Zealand**, pensions are paid for from general tax revenues, not social security taxes on earnings. "We dropped the social security tax, because it brings administrative expenses with it and it's regressive," says Derek Gill, a former section head on policy with the New Zealand Treasury Department. "Until ten years ago, the national pension provided universal entitlement for those older than 60, with payments—quite generous payments—tied to weekly earnings. As a consequence of an ageing population, the last two governments have changed

the scheme, raising eligibility to 65 over the next ten years. And since 1985, those who have large savings and substantial assets are taxed on their benefits, abated down to zero for the wealthy.... Even so, the perception is that not enough has been done to maintain fiscal integrity. But it's politically difficult to make cuts."

The **United Kingdom** has come up with a creative way of mixing private and public pension coverage. Employers may "contract out" of the Government's State Earnings-Related Pension Scheme if they offer a private plan of equal or greater value. Workers, on the other hand, can choose to opt out of their employer's plan and establish a "portable" personal pension, complete with tax breaks. Or they can be involved in all three. The plan is frankly designed to reduce government involvement in social security. Critics say, however, that the personal pension component has a relatively high element of risk.

In **Bulgaria** and **Hungary**, as in other Eastern European countries in transition from centralized planned economies, older workers continue to receive checks from pension plans established under previous governments. But recent inflation at rates completely unexpected when the plans were designed has drastically eroded purchasing power. Strict fiscal policies disallow raising pension levels, and overall declines in production reduce job possibilities for the elderly. The situation is especially difficult because there are currently about two working people for each pensioner in Bulgaria and Hungary, and the ratio may fall to one-to-one by the beginning of the next century.

Bank failures and the mounting incidence of indebted Governments have led to worries about the fiscal stability of retirement funds. In the **United States**, Congress began looking into the need for regulation of the beleaguered insurance industry in 1992, and a 1990 international conference on private pension policy sponsored by the United States Department of Labor studied the keys to successful plans. But the national social security fund is racking up a large surplus. "Social security reforms were instituted in the mid-1980s to ensure fiscal integrity," says the IFA's Charlotte Nusberg. "As long as the fund is kept intact, there's no need to scale back benefits."

Old-age security in developing countries

Pension coverage in the less developed countries is usually limited to wage workers in the formal sector. Those often not covered include: domestic and agricultural workers, farm owners, the self-employed, part-time workers and "those paid off the books", disabled persons, housewives and widows. Elderly women are especially vulnerable. They live longer than men, have worked less frequently in the formal sector and suffer more often from longterm chronic impairments (while men tend to incur chronic illnesses which bring on hospitalization or death).

There are exceptions—a very strong pension and health security programme in **Cuba**, extension of pension plans to the self-employed and broadened medical services to disabled and indigent people in countries like **Jamaica** and **Gabon**. But even these efforts are under extreme financial pressure. The 1980s, a hard decade for the developing world, were particularly unkind to older people. According to Dalmer Hoskins, secretary-general of the International Social Security System Association, economic difficulties and the transfer of jobs from the formal to the informal sector have caused a drop in contributions to pension funds in Africa and Latin America—although in the 1990s there have been increases among the less developed South Asian countries.

The fiscal straits of the developing countries have led to a focus on alternative means of support.

"I haven't seen job training for older persons," says Nana Apt, a professor and organizer of the elderly in **Ghana**, "but the elderly farmers are receiving extension services. The best help is to help them be able to achieve for themselves. Right now all the old people are working—they're working until they drop dead. So why not support them so they can work with dignity and fulfilment?"

Dora Pons O'Neill, director of a non-profit network serving the elderly in **Uruguay**, reports government backing for collective mini-enterprises. Older people banding together in this manner have had particular success in the countryside, producing wine, dairy products, meats and honey for export. She finds that in many ways the nondisabled elderly in the countryside have more options than urban retirees whose pensions have suffered from inflation.

The traditional means of supporting older people comes from the family. "That's how the third world looks at it—they ask, what is the attitude of the family toward the ageing?" says Aida Gindy, former chief of the United Nations Social Welfare Services Division and now a consultant for social development. Statistics from various developing countries indicate that family support ranks ahead or directly after earnings as the means of support for the elderly, with pensions and personal savings combined running a distant third.

But in the decades ahead families will have fewer young adults supporting more elderly. And already young adults are leaving their parents behind in the countryside to seek jobs in the cities. The children may send remittances home—but a check in the mail does not provide hands-on care or companionship.

"Thirty years ago, they set up housing facilities specifically for the elderly," recalls Aida Gindy of her native **Egypt**. "But then they closed them down, because family members wouldn't allow their elderly relatives to be institutionalized. Now incomes are lower, the cost of living is higher and apartments are much smaller. So the pendulum is swinging toward providing more institutionalized care for the elderly, even as in the developed countries the pendulum is swinging toward enabling more care for the elderly to be accomplished in the family or in the community."

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